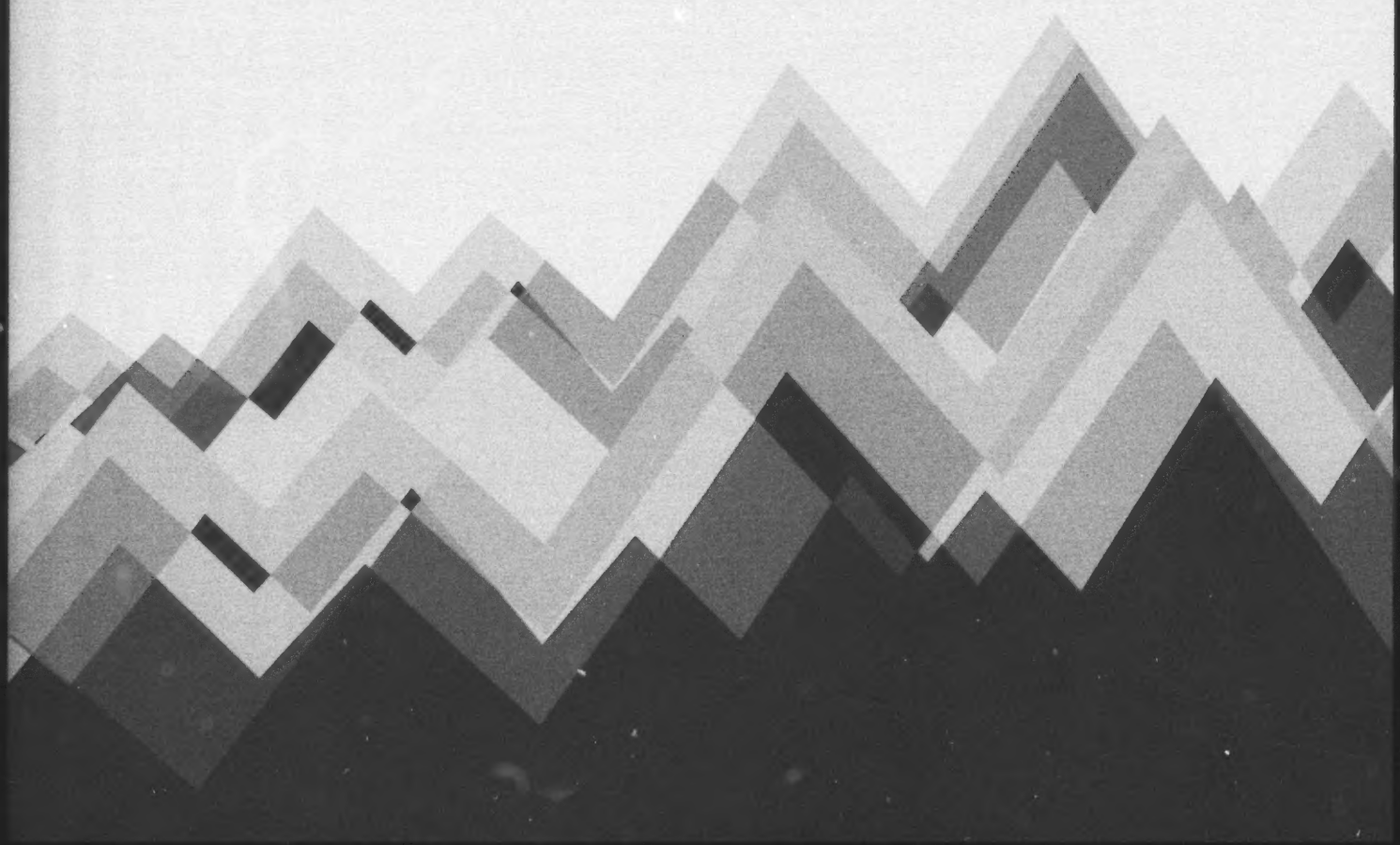
British Columbia
Securities Commission

Service Plan 2014/15 – 2016/17



British Columbia Securities Commission Service Plan

This Service Plan sets out our strategy for the next three years, beginning April 1, 2014. Copies are available on the British Columbia Securities Commission (BCSC) website at www.bcsc.bc.ca (*About the Commission*), or by phoning or emailing our public inquiries group:
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ACCOUNTABILITY STATEMENT – BCSC CHAIR TO MINISTER

Honourable Michael de Jong
Minister of Finance
Parliament Buildings
Victoria, BC V8V 1X4

Dear Minister:

On behalf of the Board of Directors and staff at the British Columbia Securities Commission, I am pleased to submit the BCSC's Service Plan for fiscal years 2014/15 – 2016/17.

The BCSC is an independent provincial government agency responsible for administering the *Securities Act*. We protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital.

Our plan

This is a three-year plan, which takes effect April 1, 2014. It identifies one strategic opportunity, reducing the cost of regulation for venture issuers, and two risks: non-compliance in the private placement market and market misconduct associated with offshore secrecy jurisdictions. It describes seven strategies that strengthen our ability to achieve our mission and strategic goals. It also describes work we will do in accordance with the Government Shareholder Letter of Expectations to support the implementation of a cooperative Canadian securities regulator. We will focus our efforts in the year ahead on these regulatory priorities.

We continue to organize our work under four goals:

- Foster a culture of compliance
- Act decisively against misconduct
- Educate investors
- Advance cost-effective regulation

The venture capital market

The venture capital market is critical to BC's economy and to Canada's. Where resources are concerned, Canada leads the world in mining expertise. There are over 1100 BC-based venture companies, representing about half of the companies listed on the TSX-Venture Exchange. These small and mid-sized companies are generators of economic growth and job creation. For these enterprises to start up and grow, they require access to

capital. Therefore, it is vital that our securities regulatory regime supports a cost-effective, innovative, and reputable market for these early-stage companies.

In this plan, we highlight the opportunity to reduce the regulatory burden on venture issuers, recognizing that regulatory costs can disproportionately impact smaller entities. Updated regulations could achieve our mandate of investor protection and market integrity through more cost-effective means.

Last year we identified opportunities to remove barriers to financing and to reduce the complexity and costs of disclosure for venture issuers. We expect to implement some of those changes this year. We will follow that up by exploring other options to modernize regulatory requirements that take into account changes in technology and real-time dissemination of information.

Protecting investors
While most companies legitimately seek to raise monies from investors, there are also ample opportunities for fraud. We are in Year 3 of our *Be Fraud Aware Campaign*, aimed at raising awareness of securities fraud. This year in addition to continuing to warn more vulnerable investors about securities fraud, we are empowering investors – to be more capable and confident investors.

We dedicate significant resources to other ongoing investor protection programs. We describe them in greater detail in this plan under a discussion of our core business.

Non-compliance in the private placement market
Capital raised in the private placement market now exceeds the public markets, accounting for $12 billion in 2012. The vast majority of those who use the private placement market to raise capital are investment funds and public companies. The most active industries in the private placement market are real estate and mining.

A small percentage of this money is raised to finance private start-up businesses. These are risky investments because these companies have limited disclosure obligations both up-front and on an ongoing basis and there are restrictions on the resale of their securities. Last year we created an on-line *Guide to Private Placement Investing* to help both investors considering investing in this market and companies considering raising money from the public. In the coming year we will continue conducting compliance reviews of those operating in the private placement market – both issuers and dealers, to rigorously monitor compliance with the private placement rules.

Accountability statement
I directed the preparation of the 2014/15 – 2016/17 BCSC Service Plan, and the Board approved it, in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles. I am accountable for its contents, including what has been included and how it has been reported. The performance measures are consistent with the BCSC's mandate and goals, and focus on aspects critical to the BCSC's performance. The

performance targets have been determined in view of the Commission's operating environment, forecast conditions, risk assessment, and past performance.

The plan is consistent with government's strategic priorities and fiscal plan. To the best of our knowledge, we have considered the significant assumptions, policy decisions, events, and identified risks in preparing this plan as of November 15, 2013.

Yours truly,

Brenda M. Leong
Chair and Chief Executive Officer

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GLOSSARY

AMF	l'Autorité des marchés financiers
ASC	Alberta Securities Commission
B.C.	British Columbia
BCSC	British Columbia Securities Commission
CDS	CDS Inc.
CGI	CGI Information Systems and Management Consultants Inc.
CSA	Canadian Securities Administrators
CNSX	Canadian National Stock Exchange
IIROC	Investment Industry Regulatory Organization of Canada
MFDA	Mutual Fund Dealers Association of Canada
MMOU	IOSCO Multilateral Memorandum of Understanding
NI	National Instrument
NOH	Notice of Hearing
NRD	National Registration Database
OSC	Ontario Securities Commission
OTC derivatives	Over the counter derivatives
PAs	Principal administrators (collectively, BCSC, AMF, ASC, OSC)
PSAB	Public Sector Accounting Board
RSBC	Revised Statutes of British Columbia
SEDAR	System for Electronic Document Analysis and Retrieval
SEDI	System for Electronic Disclosure by Insiders
SRO	Self-Regulatory Organization
TSX	Toronto Stock Exchange
TSX-V	TSX Venture Exchange

ORGANIZATIONAL OVERVIEW

BCSC vision

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

Mission and values

The BCSC is the independent provincial government agency responsible for regulating capital markets in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

Our values of integrity, accountability, and service guide our commitment to appropriate, effective, and flexible regulation. This commitment allows us to keep pace with quickly evolving capital market changes.

Enabling legislation

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit our annual report and audited financial statements. We submit our three-year Service Plan to the provincial Ministry of Finance and Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

Corporate governance

The BCSC is governed by a board of up to 11 commissioners (the Board) appointed under the *Securities Act*. The commissioners have four categories of responsibilities. They:

- Review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- Act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by the Self-Regulatory Organizations (SROs) and exchanges
- Act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs
- Oversee SROs, exchanges, and other marketplaces

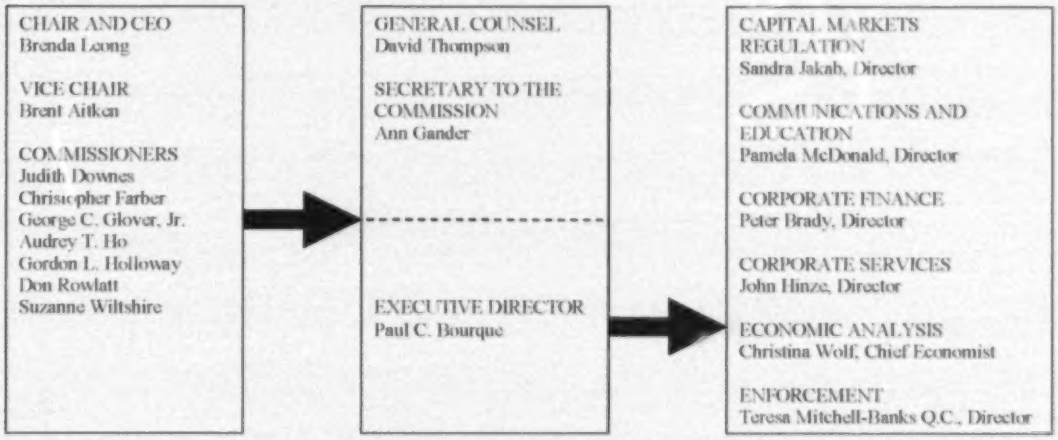
Our governance policy is on the BCSC website at www.bcsc.bc.ca (*About the Commission: Governance*). The commission's governance practices meet the government's *Best Practice Guidelines-B.C. Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, Board Resourcing and Development Office), with one exception. The Chair of the commission functions as both chair and chief executive officer. The board does not have a lead director. The governance policy describes the mechanisms in place to balance the combination of the chair and chief executive roles, and explains how those mechanisms provide appropriate governance outcomes. More information about the BCSC governance policy, including biographies of each commissioner and members of the senior management team, is available on the BCSC website at www.bcsc.bc.ca (*About the Commission: Governance*).

Independent commissioners are also members of one or more of three Board subcommittees described in the table below.

Audit Committee	Purpose:	The audit committee assists the board in: • overseeing the integrity of the commission's financial management and reporting systems • overseeing the effectiveness of the commission's internal controls • ensuring the independence of the commission's internal and external auditors • monitoring risk management policies and systems • such other initiatives as may be necessary or desirable to enhance board effectiveness
	Chair: Members:	Suzanne Wiltshire George C. Glover, Jr., Gordon L. Holloway, Don Rowlatt
Human Resources Committee	Purpose:	The human resources committee assists the board in: • ensuring the commission has an effective organizational structure and competitive human resources and compensation policies and practices • ensuring appropriate processes are in place for the selection (except for the chair and vice chair), evaluation, compensation, and succession of senior management • evaluating and determining compensation for the chair • such other related initiatives as may be necessary or desirable to enhance board performance
	Chair: Members:	Don Rowlatt Judith Downes, Audrey T. Ho
Governance Committee	Purpose:	The governance committee assists the board in: • ensuring the BCSC has policies and practices for good governance and ethical conduct • ensuring the board and its committees function independently

		• evaluating board performance • establishing and implementing, together with the chair, the process for identifying, recruiting, and appointing independent commissioners • such other related initiatives as may be necessary or desirable to enhance board performance
	Chair: Members:	George C. Glover, Jr. Audrey T. Ho, Suzanne Wiltshire

Organizational structure



Key stakeholders

- The public—which relies on us to foster capital markets that contribute to the well being of B.C.
- Investors—who seek to invest in fair and efficient securities markets
- Issuers—companies that rely on the capital markets to fund growth
- Securities firms—which advise investors and companies, and facilitate trades
- Market places—which facilitate trades
- Other regulators—with which we enforce compliance and develop and implement policy initiatives through the Canadian Securities Administrators (CSA)
- The provincial government—to which we are accountable

The securities regulation landscape

Current operations

We fulfill our mandate to regulate B.C. capital markets in cooperation with other CSA jurisdictions. Regulating B.C.'s capital markets in the context of a national system significantly affects how we conduct our work. It also influences how we consider and implement securities policy in B.C.

We work within a "passport" system. Passport gives a market participant automatic access to the capital markets in other jurisdictions by obtaining a decision only from its principal regulator and meeting the requirements of one set of harmonized laws. All Canadian jurisdictions, except Ontario, participate in the passport system. While Ontario-based market participants benefit from the passport program, market participants based outside of Ontario must deal with both their principal regulator and the Ontario Securities Commission (OSC).

We rely on SROs to regulate dealers and trading activity in Canadian securities and exchange contract markets:

- Investment Industry Regulatory Organization of Canada (IIROC) regulates investment dealers and trading activity on Canadian equity marketplaces, including the Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSX-V), Canadian National Stock Exchange (CNSX), and alternative trading systems.
- The Mutual Fund Dealers Association of Canada (MFDA) regulates mutual fund dealers. The BCSC leads regulatory oversight for the MFDA on behalf of CSA, subject to input from the other CSA jurisdictions. The OSC performs the same role for IIROC.

The BCSC has recognized the TSX-V under the *Securities Act* and shares responsibility with the Alberta Securities Commission for its oversight. The BCSC has exempted the TSX, Alpha Exchange, and the CNSX from recognition, and we rely on oversight of these exchanges by the OSC.

The BCSC has recognized CDS Clearing and Depository Services Inc. and Canadian Derivatives Clearing Corporation. These agencies clear exchange-listed securities and derivatives.

The BCSC has also recognized the Canadian Public Accountability Board, which oversees auditors who audit public issuers in Canada.

Cooperative capital markets regulator

In September 2013, the Minister of Finance of British Columbia agreed in principle to establish a cooperative capital markets regulatory system with the ministers of Finance for Ontario and Canada. It is proposed that a cooperative securities regulator will administer a uniform securities act and a complementary federal act, and be accountable to a Council of Ministers representing participating jurisdictions and the federal finance minister. Timelines for the implementation of this system are described in an Agreement in Principle with a proposed transition date in 2015.

BCSC core areas of operation

Compliance

We register securities firms and their advisors (except IIROC firms and their advisors, who register with IIROC) and refuse applications from unsuitable candidates. We also regulate companies and insiders.

In our Capital Markets Regulation division, we audit these securities firms on an on-going basis for compliance with the rules. Better investor protection results when securities firms and advisors understand and comply with the rules. We achieve this, in part, by ensuring these organizations have effective compliance systems and controls in place.

We also oversee conduct of the SROs recognized in BC, which involves reviewing ongoing filings, proposed rule and fee changes, and conducting periodic oversight reviews.

In our Corporate Finance division, we review prospectus filings that companies make when they go public or when they are already public. The prospectus is the key disclosure document used by companies to raise money from the public. We also monitor continuous disclosure documents filed by public companies to detect cases where they are not providing adequate disclosure. Investors are better able to make informed investment decisions when they have access to adequate periodic and timely disclosure. As part of our prospectus and continuous disclosure review programs, we review mining technical disclosure of public companies. On request, we perform a pre-filing technical review for companies contemplating filing a short form prospectus, which has shorter review times.

We also monitor daily trading of OTC companies that file with the BCSC. We flag unusual trading activity and request further information.

In both divisions, we have recently implemented risk models to inform our choices of where we focus our compliance oversight time. We have risk models for each of the following areas:

- *Private placement filings*
  The objective is to reduce the risk of private companies misusing exemptions or providing non-compliant disclosure to investors
- *Registered firms*
  The objective is to detect significant compliance deficiencies and direct corrective action.
- *Individual registration applicants*
  The objective is to reduce the risk of unqualified and unethical individual registrants dealing with the public.
- *Corporate Finance continuous disclosure*
  The objective is to reduce the risk of issuers providing investors with incomplete, inaccurate, or dishonest information.

Enforcement

Effective enforcement requires decisive action against misconduct. Decisive action depends on timely detection, quick and thorough investigation, and vigorous prosecution of alleged misconduct. We resolve cases through settlements and by administrative proceedings and criminal prosecutions.

Our Enforcement division focuses on illegal distributions (including misrepresentations and fraud), market misconduct (including market manipulation and insider trading), and compliance cases (including non-compliance by dealers and issuers) with a strong B.C. connection, as well as criminal cases. SROs generally deal directly with cases involving SRO member misconduct.

Pursuing illegal distribution and fraud through both administrative and criminal enforcement is a critical part of our work. Our objectives are to deter fraudulent activity and illegal distributions, and to mitigate investor losses by disrupting ongoing frauds and illegal distributions.

Companies that do not comply with our prospectus and registration rules (called an illegal distribution) put investors at risk. In the worst cases, illegal distributions are designed to defraud investors. The financial loss can equal the entire savings of households, with a low probability of recovery, and brings with it well documented emotional impacts for the individuals and their families.

We maintain many programs to detect and pursue illegal distributions and fraud. We:

- Identify and freeze cash and other assets to preserve property for distribution to victims by the courts or the Civil Forfeiture Office
- Issue temporary orders to immediately stop misconduct
- Conduct investigations, leading to settlements or administrative hearings before the Commission
- Pursue criminal investigations and refer appropriate cases to Crown Counsel for prosecution
- Issue investor alerts through traditional and social media about suspected frauds in progress
- Educate investors about the warning signs of fraud so that fewer of them fall victim to fraudulent activity

Criminal case work

One branch of our Enforcement division investigates criminal cases. Our goal is to bring more cases before the Courts in order to send a strong deterrence message. Every case proceeding at the BCSC is evaluated for its suitability as a criminal matter.

Investor education

Our goal is to educate investors so they can make informed investment decisions and protect themselves from fraudulent investment schemes. We want investors to assess potential investments and advisers critically before they invest. Research shows that many investors lack the knowledge and understanding they need to make sound

investment decisions. For this reason, our Communications & Education division develops targeted programs for various groups from high school students to seniors.

One program of significant importance is our *Be Fraud Aware* campaign to fraud proof British Columbians in three communities: English, Chinese (Mandarin, Cantonese), and South Asian (Punjabi). Since the launch of the campaign three years ago, awareness of the warning signs of fraud is up considerably in all three communities. As a result, we are receiving more information and tips from the public that aids our enforcement efforts.

Policy-making

We have the authority under the *Securities Act* to make rules. We also issue guidance to help market participants understand the rules. We use these tools when regulatory intervention into the market is justified and other tools are insufficient to address the reason for the intervention. Through our work with CSA, we seek to harmonize securities rules to the extent possible while ensuring that B.C.'s capital markets are protected.

BCSC operating environment and capacity

Capital markets are rapidly evolving and becoming increasingly complex and sophisticated. We manage our operations to ensure we have the appropriate resources and capital market expertise to meet these market challenges. We focus our efforts using a risk-based approach, paying more attention to high-risk firms, issuers, and individuals. We allocate resources and manage operations through:

- Strategic planning and a comprehensive risk management framework, including our regulatory risk models
- A rigorous annual budgeting process and monthly budget variance reporting
- Strong project management and purchasing controls
- Succession planning and recruiting to maintain key competencies
- Ongoing professional development to meet evolving market developments

A few significant national projects will be major factors in our operating environment in the coming year and will impact our capacity. These include:

- Establishing a cooperative capital markets regulatory system
- CSA national filing forms and systems redesign
- Implementation of a derivatives regime

Establishing a cooperative capital markets regulatory system

The BCSC will provide significant resources and expertise to effectively support the government's cooperative securities regulator initiative.

CSA national filing systems renewal

The BCSC is one of four CSA partners responsible for operating the national filing systems. These systems are critical to the operation of the regulatory system and market participants. We will be building new systems to replace the existing System for Electronic Document Analysis and Retrieval (SEDAR), System for Electronic Disclosure by Insiders (SEDI), National Registration Database (NRD) applications and our local

exempt distribution and exemption application filing systems. While we have planned for staff to work on this system, it is a significant undertaking and may require more staff time than we have estimated.

Implementation of a derivatives regime
The BCSC is working with the CSA to develop a framework to regulate OTC derivatives, which includes regulation of a wide variety of market participants: dealers, large derivatives participants, local derivatives counterparties, trade repositories, clearing agencies, and exchanges and other types of execution facilities. It is not yet clear what resources and financial commitments B.C. will need to implement rules brought into force from this work. In particular, a proposed new system to aggregate Canadian trades from global trade repositories will require a significant IT investment.

We describe our specific plans for discretionary and strategic project work in the "New strategies by goal" section.

STRATEGIC CONTEXT

In this plan, we identify an opportunity to reduce the cost of regulation for venture issuers and two risks that we think pose the most significant threats to investor protection and market integrity in British Columbia for the planning period. The two risks continue from last year.

The BCSC's Risk Management Framework is approved by the Board and defines the approach used to assess and manage risks in the market and in operating the BCSC.

We outline in this Service Plan the key strategic opportunity and risks as well as their related strategies, which we implement through detailed operating plans. Under this plan, we will focus on:

- Opportunities to reduce the cost of regulation for venture issuers
- Non-compliance in the private placement market
- Market misconduct associated with offshore secrecy jurisdictions

In addition to the work that we will undertake to manage these risks, we will continue to support the initiatives of the CSA that address national and global market issues.

Strategic opportunities and risks

Opportunity 1: Reduce the cost of regulation for venture issuers

B.C. is known internationally as a centre of mining finance, particularly in the area of exploration and development. About 25% of the world's public mining companies call B.C. home. B.C. is also home to half of the TSX-V's 2,200 listed issuers, with about 800 of them operating in the mining sector.

The last two years may have been the toughest for the junior public venture market. At December 2012, total market capitalization of the TSX-V was $40 billion and a total of $6.0 billion had been raised in the 2012 calendar year.[1] By contrast, the same figures to December 2011 were $49 billion market cap and $10.1 billion in financings. At the market peak in 2007, the figures were $58 billion in market cap (at December 31) and $11.1 billion in financings. About 62% of TSX-V issuers have a market cap of under $5M (at September 30, 2013). Slow economic growth, global financial issues, and depressed commodities prices have been factors.

A responsible and effective regulator should always consider the costs of regulation. It is perhaps more imperative in this tough economic environment. These challenging market conditions provide an opportunity to examine existing rules to reduce complexity and compliance costs and to foster market efficiency. This year we will implement targeted rule changes developed last year and conduct market research that may identify further opportunities to reduce compliance costs for venture issuers while maintaining appropriate investor protection.

[1] Capital raising from all sources, including IPOs, subsequent offerings, and private placements.

Current work to examine existing regulations
Currently we have three projects that, when implemented, should reduce financing and ongoing compliance costs for venture issuers.

Proportionate regulation project, phase two
The proportionality of regulation is an important strategy in achieving cost effective regulation. In 2009, we began to develop NI 51-103 *Ongoing Governance and Disclosure Requirements for Venture Issuers* to streamline some of the regulatory rules for venture issuers. During the course of that development, issuers faced a severe economic downturn and, while initially supportive, decided that at this time the costs of adapting to a new regime were not worth the benefits. Therefore, we made a decision not to proceed with the proposed rule.

However, we believe some aspects of the proposal have merit and will reduce regulatory costs for venture issuers. We are leading a CSA project to implement some elements of the proposal. Examples of possible changes include eliminating most business acquisition reporting, and replacing quarterly MD&A with a new, one-page "quarterly highlights" document.

Existing shareholder exemption
We [published for comment] a new prospectus exemption that will allow shareholders of listed issuers to purchase additional securities of the issuer based on the issuer's existing continuous disclosure record. The exemption streamlines the offering process, reduces costs, and facilitates financing opportunities for listed issuers by opening up offerings to retail investors.

Rights offerings
Rights offerings are widely regarded as an ideal and fair way of raising capital since existing shareholders already know about the company and are given the opportunity to maintain their proportionate interests in the company. However, we also know that public companies do not complete rights offerings frequently. Industry has pointed to the time and cost associated with them being too high as a reason. We are leading a CSA project to review the rights offering rules to make it a more effective financing vehicle for issuers.

Future research to identify opportunities to reduce regulatory cost
While all market participants will come with inherent biases that need to be considered in designing regulations, their experience in the markets can point to inefficiencies we may be able to address through better regulation. Three lines of research planned illustrate opportunities for more regulatory streamlining.

Venture trading strategies review
We are analyzing venture market trading information to understand the impact of high frequency trading and short selling on market quality. We will consider whether there is evidence of harm and if there is whether regulatory action is necessary.

Industry outreach
We will conduct an outreach program to gather expert stakeholder views about regulatory burdens and other "friction points" imposed on venture issuers through securities regulation. We will assess whether any regulatory changes are warranted.

Researching public venture issuers that go private
We are aware that in some circumstances public companies choose to go private to avoid regulatory costs. We will research whether we have cases of BC TSX-V issuers going private and seek to understand in these cases what regulatory requirements contributed most to the decision.

Next steps
We plan to address the risk that securities regulation is a contributor to the venture market downturn under:

- Goal 1: *Promote a culture of compliance*
  - Strategy 1.1: *Modernize our approach to capital raising exemptions*
- Goal 4: *Cost-effective regulation*
  - Strategy 4.1: *Venture market cost of regulation research*
  - Strategy 4.2: *Research on venture trading strategies*

Risk 2: Non-compliance in the private placement market

The private placement market is used by a wide variety of businesses – from start-up venture capital companies to established companies. The private placement market is a significant avenue for capital raising.

In 2012, BC companies raised $12.1B in the private placement market. Private companies raised $7B, of which approximately $4.4B went to private investment funds and $2.6B went to all other types of entities. Public companies raised $5.1B in the private placement market, compared to $8.1B raised through public offerings. The most active industries in the private placement market are investment funds, real estate, and mining.

Our objectives in the private placement market are to have:

- Participants in the private placement market comply with the rules
- Rules that achieve a balance between protecting those who are eligible to invest in the private placement market, and promoting efficient capital raising

To achieve those objectives, we oversee the private placement market by:

- Educating private BC companies about capital raising rules
- Monitoring the use of exemptions and the quality of disclosure where it is required
- Selecting higher risk market participants for compliance reviews and referring cases of misconduct to enforcement
- Conducting compliance reviews of exempt market dealers who sell private placement securities
- Monitoring compensated promoters who have claimed an exemption from the adviser registration requirement

Next steps
We plan to address risks to investors posed by non-compliance in the private placement market under:

- Goal 1: *Promote a culture of compliance*
  - Strategy 1.1: *Modernize our approach to capital raising exemptions*
  - Strategy 1.2: *Real estate offerings*
- Goal 4: *Cost-effective regulation*
  - Strategy 4.3: *CSA national filing forms and systems redesign*

Risk 3: Market misconduct associated with offshore secrecy jurisdictions

The integrity of British Columbia markets is damaged when people use BC dealers to trade illegally on inside information, manipulate the market, or engage in other forms of market misconduct using accounts in offshore secrecy jurisdictions. When offshore secrecy jurisdictions are used to hide illegal activity, it can make an investigation impossible.

To deal with this problem, we focus on elements of misconduct we are able to enforce within our jurisdiction:

- Misconduct in our own jurisdiction by B.C. residents
- Misconduct when using B.C. dealers
- Other misconduct that falls within our jurisdiction

As an example, in October we published for comment dealer conditions that would prohibit investment dealers from engaging in account activity with a financial institution's office if both the office is in a jurisdiction outside Canada or the United States and the securities regulator in that jurisdiction is not a signatory to the IOSCO Multilateral Memorandum of Understanding (MMOU). Under the MMOU, member countries have committed to sharing information to assist international enforcement efforts.

Our objectives are to ensure that:

- Dealers reasonably believe that they know the beneficial owner of securities traded from offshore accounts and can properly supervise the trading associated with these accounts
- We can investigate trading by offshore accounts in securities, listed on any market, through B.C. dealers to the same extent, and in a similar timeframe, as domestic trading activity
- We deter illicit offshore secrecy jurisdiction trading

Next steps
We describe our plans to address the risks to investors posed by traders in offshore secrecy jurisdictions in the next section under:

- Goal 2: *Act decisively against misconduct*
  - Strategy 2.1: *Disrupt manipulative trading from offshore secrecy jurisdictions*

NEW STRATEGIES BY GOAL

We have the following goals:

1. Promote a culture of compliance
2. Act decisively against misconduct
3. Educate investors
4 Advance cost-effective regulation

We align each of the new strategies outlined in the following pages with our four stated goals. Strategies in this plan are project-oriented and represent the investment in new processes or content for the BCSC. Programs related to risks that we manage through our routine operations are not described in this section.

Goal 1: Promote a culture of compliance

Investors are better protected if securities firms and companies that issue securities understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with securities rules. We intervene to correct non-compliance when warranted.

Strategy	Related Risk	Commitments
Strategy 1.1: Modernize our approach to capital raising exemptions	1 and 2	We will modernize exemptions that permit investors to participate in the private placement market. We will continue leading a CSA policy project to review the capital raising exemptions in National Instrument (NI) 45-106 *Prospectus exemptions*. The areas of focus are as follows: • the accredited investor and the minimum investment amount exemptions • the existing shareholder exemption • explore ways to adapt our regime to provide similar capital raising opportunities that will be available under proposed U.S. Securities and Exchange Commission crowd funding rules. We will lead a CSA policy project to review rights offerings in National Instrument (NI) 45-101 *Rights Offerings*. The area of focus is to propose ways that make this capital raising option more cost effective.
Strategy 1.2: Real estate investments	2	Among private issuers raising capital, those focused on real estate and mortgage products rank number two in B.C., behind investment funds. We will evaluate

		whether our OM, which was designed with private small business start ups in mind, address the risks critical to investors in this asset class.

Goal 2: Act decisively against misconduct

We aim to achieve timely enforcement through early intervention and the pursuit of cases that will deter future misconduct. The BCSC cooperates with securities regulators in other jurisdictions to share information, conduct investigations, and issue reciprocal enforcement orders. We also aggressively pursue securities misconduct through administrative and criminal proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions, and order people out of the market. We work closely with Crown Counsel to pursue criminal charges where warranted. Criminal convictions allow for the imposition of penalties, including prison sentences, which help deter serious misconduct.

Strategy	Related Risk	Commitments
Strategy 2.1: Disrupt manipulative trading from off-shore secrecy jurisdictions	3	We will: • Pursue registration issues and market manipulations related to foreign financial institutions located in secrecy jurisdictions. • Monitor turnaround times from specific jurisdictions to BCSC enforcement demands • Target further regulatory interventions that can disrupt manipulative trading through secrecy jurisdictions.

Goal 3: Educate investors

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments before they invest.

We focus on these core areas to support a successful investor education program:

- *Increase public awareness*—we increase awareness of our education programs so that investors learn the skills they need to help them protect their finances.
- *Reach investors early*—we expand financial life skills programs to help investors spot fraudulent investments before they suffer investment losses.
- *Strengthen investor education*—we provide tools and information to help investors get better service and advice.
- *Develop partner relationships*—we build partnerships to reach ethnic and religious communities throughout the province.

Strategy	Related Risk	Commitments
Strategy 3.1: "Be Fraud Aware" campaign	None	After completing a three-year campaign to educate British Columbians on the dangers of investment fraud, we will develop a strategy to maintain investor awareness of our key messages. The goal is to keep up a high awareness of the warning signs of investment fraud.

Goal 4: Advance cost-effective regulation

Our goal is to advance cost-effective regulation. Regulation imposes costs through fees, compliance costs, and restrictions on innovation. Investors inevitably pay these costs. We aim to provide strong investor protection and market integrity for the least cost.

We advance cost-effective regulation by focusing on three core areas:

- *Emphasize practical solutions*—When the market cannot fix market problems, we emphasize practical solutions, looking at the full range of potential regulatory responses and advancing only those that will provide significant benefits that exceed the costs.
- *Use our resources efficiently*—We deploy our resources efficiently through risk management, teamwork, and relevant performance measures.
- *Deliver services reliably*—We deliver key regulatory services, on a timely basis, recognizing that delay adds to costs for market participants.

Strategy	Related Risk	Commitments
Strategy 4.1: Venture market cost of regulation research	1	We will conduct cost-benefit analysis on rule changes that may benefit venture market companies. We will conduct industry outreach of various expert stakeholders to understand their views of where excess regulatory burden exists for venture issuers. We will research public venture issuers that go private to understand what regulatory costs contributed to this decision.
Strategy 4.2: Research on venture trading strategies	1	We will continue to study specific trading practices and whether they negatively impact venture issuers or the retail investors that participate in this market and, if so, explore ways we can curb this trading behavior.
Strategy 4.3: CSA national filing forms and systems redesign	2	CSA has begun a multi-year project to redesign its national filing systems. These systems are important to BCSC because our local processes and systems rely on the national systems. This redesign is also an opportunity for CSA to streamline and structure the information we mandate from filers.

ONGOING PERFORMANCE MEASUREMENTS AND TARGETS BY GOAL

This section describes the performance measures we use to track our progress in achieving our goals through our operating activities. We track progress towards our goals using relevant, long-term measures so that stakeholders can assess our performance over time. We set targets for each measure on an individual basis that factor in a target's ability to reflect a compliant market, hold Commission staff accountable for stretch goals, and improve on current results. Information about our performance measurement systems are summarized in a table in Appendix A.

These measures are not tracked consistently across other CSA jurisdictions so we do not have benchmark comparisons that help gauge our relative performance to our peers.

Goal 1: Promote a culture of compliance

PERFORMANCE MEASURES		**TARGETS**			
	12/13 Actuals/ baseline	**13/14 Target[1]**	**14/15 Target**	**15/16 Target**	**16/17 Target**
1.1 Percentage of reviewed issuers that reduce deficiencies a) Improved disclosure subsequent to a continuous disclosure review b) Improved disclosure to minimum standards	a) 100%[2] b) 100%	a) > 95% b) >95%[3]	a) > 95% b) Improve on 13/14 baseline	a) > 95% b) Improve on 14/15 actual	a) > 95% b) Improve on 15/16 actual
	Our corporate finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of issuers that received comment letters from us during that year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant issuers to improve their disclosure. The target is set to what is practically achievable and reflects compliant behaviour by issuers.				

PERFORMANCE MEASURES			TARGETS		
	12/13 Actuals/ baseline	**13/14 Target**	**14/15 Target**	**15/16 Target**	**16/17 Target**
1.2 Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure in: a) Filed disclosure (Annual information forms, News releases, Management discussion and analysis) b) Issuer websites and other voluntary disclosure	a) 79%[4] b) 57%	a) > 80% b) > 62%	a) Improve on 13/14 actual b) Increase average by 5% over 13/14	a) Improve on 14/15 actual b) Increase average by 5% over 14/15	a) Improve on 15/16 actual b) Increase average by 5% over 15/16
	B.C. is home to most Canadian mining issuers. We will randomly select issuers from a list of BC-based mining issuers and analyze whether those issuers' most recent technical filings were compliant with NI 43-101 *Standards of Disclosure for Mineral Projects*. This review will show the extent to which a sample of B.C. -based mining issuers is compliant in specific areas of their technical disclosure. The targets recognize that, based on historical results, these measures fluctuate with no real trend, but we aim to improve these percentages as a sign of increased industry compliance.				
1.3 Average number of deficiencies per examination in Capital Markets Regulation	4.16 out of 46 categories[5]	3.95 out of 46 categories [6]	Decrease average by 5% over 13/14	Decrease average by 5% over 14/15	Decrease average by 5% over 15/16
	Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using various indicators of risk, we risk rate our firms so that we can determine how frequently and how closely to examine their compliance. This statistic shows the average deficiencies found in complete exams performed over the period. Firms subjected to audits for cause are excluded from our analysis. The target is set to decrease these percentages as a sign of increased industry compliance.				

Notes: (1) Actual data for all targets will be included in the 13/14 Annual Report. (2) Based on a sample of 25 issuers. (3) The target for measurement is to improve year-over-year. Since we achieve 100% compliance in fiscal 2013, further improvement is not possible. We set the top target for this at greater than 95%. (4) Based on a sample of 40 issuers. (5) Based on 32 examinations. (6) A 5% year-over-year reduction is an ambitious target because of the large number of newly registered businesses.

Goal 2: Act decisively against misconduct

PERFORMANCE MEASURES			TARGETS		
	12/13 Actuals/ baseline	**13/14 Target**	**14/15 Target**	**15/16 Target**	**16/17 Target**
2.1 Actions taken to disrupt misconduct: a) Number of actions b) Average duration of complaint to action (days)	a) 37[1] b) 73 days	a) 41 b) 66	a) Increase 10% over 13/14 b) Decrease average by 10% over 13/14	a) Increase 10% over 14/15 b) Decrease average by 10% over 14/15	a) Increase 10% over 15/16 b) Decrease average by 10% over 15/16
	This measure focuses our efforts on early detection and shows our ability to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt this misconduct. Stopping investment schemes before they start and preventing further participation in existing schemes is more effective than prosecuting them after there is damage to investors. Disruptive action provides a visible valuable benefit to the public. We will track the number of disruptive actions taken by staff. We set our targets to increase the number of disruptive actions taken year over year and reduce the average time to take action.				
2.2 Average life, in months, of cases either from complaint to a notice of hearing (NOH) or from complaint to settlement before a NOH is issued	20.7[2]	14[3]	Set according to review	Set according to review	Set according to review
	Quick thorough investigations provide the public with confidence in the actions that we take to address misconduct. We want to be transparent about the average time our administrative enforcement process takes. For cases open during the fiscal year, we measure the average case duration from start to issuing the NOH or, absent an NOH, the settlement. Because of the relatively small number of cases we process each year (15-20), a small number of "outliers" can significantly affect our targets. The target is set each year using information from our current caseload.				

Notes: (1) In fiscal 2013, we took disruptive action on 37 matters. (2) In fiscal 2013, we completed 21 cases: 11 by Commission decision with an average duration of 25 months and 10 by settlement involving 16 parties with an average duration of 16 months. (3) We based the 2014 target on historical information about the changed measure we starting using in 2014.

Goal 3: Educate investors

PERFORMANCE MEASURES			TARGETS		
	12/13 Actuals/ baseline	**13/14 Target**	**14/15 Target**	**15/16 Target**	**16/17 Target**
3.1 Number of complaints and tips received from InvestRight programs	312	328	Increase 5% over 13/14	Increase 5% over 14/15	Increase 5% over 15/16
	Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. We track the number of referrals, tips, queries, and complaints received by phone and email in BCSC Inquiries that are traceable to InvestRight investor education activity, plus the number of Report a Scam and complaint forms submitted through InvestRight.org. We set targets according to the expectation that InvestRight education activities will generate more leads over time.				
3.2 Percentage of workshop participants who recall investor education warning signs of red flags	28%	31%	Increase 3% over 13/14	Increase 3% over 14/15	Increase 3% over 15/16
	We deliver investor education workshops to B.C. residents, primarily seniors. Our goal is to grow awareness of our investor education warnings, or "Red Flag," messages. We use an independent consultant to conduct a follow-up phone survey with participants who previously agreed to be contacted. To determine recall of investment fraud warning signs amongst those we have spoken to, the consultant asks each respondent, "Can you name three warning signs of investment fraud?" The target is set as a stretch goal for what we could practically achieve.				
3.3 Percentage of B.C. public aware of BCSC	49%[1]	>45%	> 45%	> 45%	> 45%
	We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or unsuitable investment opportunity. We use a consultant to survey the B.C. general population, either as part of a larger research effort or to gather data for this measure. The target is set as a stretch goal for what we could practically achieve.				

Notes: (1) BCSC survey, measuring awareness in the B.C. population. This year's high level of awareness is directly related to the BCSC's Be Fraud Aware campaign. Once this campaign is completed in 2014, the percentage will undoubtedly drop back to pre-campaign levels. It is also important to note that awareness was 52% among investors and 59% with our key target audience aged 55+.

Goal 4: Cost-effective regulation

PERFORMANCE MEASURES		TARGETS			
	12/13 Actuals/ baseline	**13/14 Target**	**14/15 Target**	**15/16 Target**	**16/17 Target**
4.1 Average score on cost-effective regulation scorecard	93%[1]	90%	> 90%	> 90%	> 90%
	To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems. We apply the scorecard to all CSA and local projects. For CSA projects, the scorecard reports on the extent to which we took steps to advocate our cost-effective regulation principles. We report the average score of all the projects completed each year. We do not include rules that we adopt purely to harmonize with other jurisdictions in this analysis. The target is set at a level such that, on average, we achieve our objectives if we hit the standards on the scorecard in all but one area.				
4.2 Average approved project post-implementation score	93%[2]	80%	> 80%	> 80%	> 80%
	We assess local projects after completing them by evaluating benefits achieved versus the business case. We assess each project (usually six or twelve months) after completion, and score the project's success relative to its proposed benefits. We define a "project" as an initiative that takes more than 20 person days and costs more than $25,000. We justify projects via business cases that describe the expected benefits.				

Notes: (1) We scored five policy projects, none of which was a BC-only initiative. (2) We scored four Information Management projects.

GOVERNMENT LETTER OF EXPECTATIONS

The provincial government sets out the following specific expectations of the BCSC in the Government's Letter of Expectations. The Government's Letter of Expectations is available on our public website at www.bcsc.bc.ca (About the Commission). Our planned actions to meet those expectations are noted below.

EXPECTATIONS	PLANNED ACTION
Assist the Minister of Finance in fulfilling his mandate to pursue a common securities regulator for Canada that protects British Columbia's interests and ensures British Columbia's securities industry is not negatively impacted by a new regime.	The BCSC will provide advice and expertise to the provincial government.
Work with other provinces and territories to strengthen investor protection and the Canadian regulatory framework	The BCSC will continue to work with the CSA to enhance the effectiveness of CSA, and strengthen investor protection and the Canadian regulatory framework.
Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories	The BCSC participates in many joint policy making committees with other Canadian securities regulators.
Provide the Executive Financial Officer of the Ministry of Finance with regular quarterly updates on the corporation's financial position and operating results	The BCSC complies with this requirement.
Comply with all legislation and policies applicable to the Corporation including but not limited to Government's requirements to be carbon neutral under the *Greenhouse Gas Reduction Targets Act*	The BCSC complies with these requirements.

SUMMARY FINANCIAL OUTLOOK

Future-oriented financial information

We prepared the following information for business planning purposes. The information may not be appropriate for other purposes.

The fiscal 2014 forecast, 2015 budget, and 2016 through 2017 projection assumptions reflect our planned actions for those periods given our judgment as to the most probable set of economic conditions, together with one or more hypotheses. The hypotheses are assumptions that are consistent with the purpose of the information, but are not necessarily the most likely to occur. Actual results achieved for the fiscal 2014 – 2017 periods will vary from the information presented and those variations may be material.

The financial information, including forecast information, was prepared based on current Public Sector Accounting Board (PSAB) standards.

Nature of operations

We are the independent provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Revenues fluctuate with market activity while most of our costs are fixed. Salaries, benefits, and occupancy costs account for the majority of expenses.

As a government agency, we are exempt from income taxes. We pay GST and PST but recover any GST paid.

The BCSC, together with l'Autorité des marchés financiers (AMF), the Alberta Securities Commission (ASC), and the OSC (collectively, the Principal Administrators or PAs), and IIROC contract with CDS Inc. (CDS) to operate several national electronic filing and payment systems.

Effective April 2, 2013, the PAs entered into agreements with IIROC, CDS and CGI Information Systems and Management Consultants Inc. (CGI) to transition system management from CDS to CGI.

Effective that same day, the PAs agreed to form a government partnership to manage the national electronic filing system governance. Each of the four PAs has one vote on national electronic filing system matters. This arrangement is a government partnership, and requires proportionate consolidation of twenty-five percent of national filing system assets and operations effective April 2, 2013.

Financial outlook

We generated a $1.1 million deficit for fiscal 2013. The deficit was due primarily to $1.9 million lower than budget revenue because of lower market activity in the last quarter.

We are forecasting a $24.5 million surplus for fiscal 2014, versus a $0.2 million budget. The higher surplus is due primarily to unexpected income from the proportionate consolidation of our interest in a national filing system partnership. Public sector accounting standards required us to record our opening interest in income for the year.

The following table summarizes our actual and projected results of operations, by year[2]:

(millions)	12/13 Actual	13/14 Forecast	14/15 Budget	15/16 Projection	16/17 Projection
Revenue					
Filing fees					
Prospectus and other distributions	18.3	19.2	20.9	21.8	23.3
Registration	11.1	11.1	11.0	11.3	11.7
Financial filings	4.7	5.0	4.7	4.7	4.8
Other fees	0.2	0.2	0.1	0.1	0.1
	34.2	35.5	36.7	37.9	39.9
Other revenue					
Filing systems fees	-	7.5	6.3	6.3	6.3
Enforcement sanctions	1.0	0.7	0.5	0.5	0.5
Investment income	2.2	0.7	0.8	0.8	0.8
Total revenue	37.4	44.3	44.3	45.5	47.5
Expenses					
Salaries and benefits	27.0	28.6	28.7	28.6	29.2
Other expenses	11.5	12.2	12.0	11.8	12.0
Filing systems expenses	-	3.9	2.6	2.6	6.3
Filing systems transition costs	-	2.8	-	-	-
Total expenses	38.5	47.5	43.3	43.0	47.5
Surplus (deficit) before special item	**(1.1)**	**(3.2)**	**1.1**	**2.5**	**-**
Surplus on recognition of partnership	-	27.7	-	-	-
Surplus (deficit)	**(1.1)**	**24.5**	**1.1**	**2.5**	**-**
SUPPLEMENTARY INFORMATION					
Unrestricted surplus	30.9	27.7	25.1	23.9	23.9
Restricted surplus	0.5	28.5	32.2	35.9	35.9
Capital expenditures	4.2	5.1	3.5	1.5	1.5
Debt	-	-	-	-	-

[2] The financial information, including forecast information, was prepared based on current PSAB standards.

Revenues

Most of our revenue comes from local filing, registration, and application fees paid by market participants under the *Securities Act*. A portion of our revenue is a 25% interest in a national filing system partnership. The remainder of our revenue is investment income and enforcement sanctions.

Local fee revenue

Capital markets activity can be volatile. Accordingly, our fee model is designed to generate sufficient revenue to fund our operations through market cycles. We may generate surpluses during high points in market cycles, and deficits during low points. Our objective is to ensure that capital markets regulation is not compromised during a sustained market downturn.

The two most significant sources of fees are those paid by mutual funds to distribute securities and file financial statements, and those paid by the five largest Canadian banks to register their representatives.

Local fee revenue

(millions)	12/13 Actual	13/14 Forecast	14/15 Budget	15/16 Projection	16/17 Projection
Revenue from fees	34.2	35.5	36.7	37.9	39.9
Growth	-2.0%	3.5%	3.8%	3.3%	5.3%

We are forecasting a 3.5% increase in fee revenue for fiscal 2014 because record high mutual fund and exempt market distribution activity offset record low non-mutual fund base prospectus activity and flat advisor registration activity.

We budget market conditions to remain volatile through fiscal 2015, projecting higher fees from distribution activity, but low growth in registration and financial filing revenues. We project market activity to recover in fiscals 2016 and 2017.

Each 1% change in local fee revenues over the planning period alters forecast revenues by about $1.5 million. We maintain significant accumulated surpluses to ensure that temporary reductions in revenue do not immediately impair our ability to operate, or require reactive fee changes.

We collect the following local filing fees:

Category	Source	Proportion of local fee revenue 2014	2015
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	54%	57%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	31%	30%
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	14%	13%
Other fees	Market participants, primarily to request Securities Act exemptions	1%	0%

Distribution fees
Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from fees paid to file prospectuses[3], exempt distribution reports[4], and annual information forms[5]. When gross sales under a prospectus and under an exempt offering exceed $7.5 million and $0.3 million, respectively, an additional fee, called a "percent of proceeds fee," may be payable.

Fees related to gross sales account for about half of distribution fee revenue.

More than half of distribution fees relate to mutual and other fund sales in BC. We receive the majority of revenue related to these sales in arrears, so distribution revenue changes lag market events.

We are forecasting distribution revenue to increase $0.9 million (5%) in fiscal 2014 from record mutual fund and exempt distribution activity being only partly offset by record low non-mutual fund base prospectus filing activity. We budget $1.7 million (9%) fiscal 2015 growth and project 4% and 7% growth in fiscals 2016 and 2017 respectively.

Registration fees
Firms and individuals register with us to sell or advise on securities. Registration fee revenue has grown steadily over the last two decades. However, we are forecasting nil growth in 2014. We budget nil growth in fiscal 2015, and project a return to historic 3% growth in fiscals 2016 and 2017.

[3] Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status, and management of the company or fund.
[4] Prospectus exemptions allow companies to sell securities without a prospectus in limited circumstances.
[5] Annual information forms give current details of the operations, financial status, and management of the company.

Financial filing fees
Reporting issuers pay a fee to file their financial statements. The number of reporting issuers increases modestly most years.

We are forecasting financial filing revenue growth of $0.3 million (6%) in fiscal 2014 due to the timing of filings. The issuer population has not grown in 2014. We budget a 5% decline in 2015 due to a return to historic filing patterns and project 2% growth in fiscals 2016 and 2017 respectively.

Other local fees – exemption applications
Other fees are mostly exemption application filing fees. These fees account for only a small proportion of fee revenue and are not expected to grow.

Enforcement sanctions

We order administrative penalties and disgorgements[6] under the *Securities Act*. We also negotiate settlements, which sometimes include monetary sanctions. We appropriate these revenues to our education reserve, an internally restricted fund. Enforcement sanctions vary significantly between periods.

We only recognize in revenue sanctions that are collectible.

Investment income

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. We invest in highly liquid, high quality money market instruments, government securities, and investment-grade corporate debt securities.

We are forecasting $1.6 million (71%) lower investment income in fiscal 2014 due primarily to realizing portfolio capital gains in 2013. We assume investment yields of 2 - 4% over the rest of the planning period.

Expenses

Expenses relate to local operations and a proportionate interest in the national filing systems partnership. Salaries, benefits, and occupancy costs account for about 75% of local expenses.

Local expenses

We are committed to managing our local expenses so they do not exceed expected local revenue over market cycles. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management, and requiring Board approval of significant expense variances. Significant fiscal 2012 through fiscal 2015 expense

[6] Disgorgement attempts to return ill-gotten gains to victims. We allocate to the education reserve disgorgements collected and not claimed within three years of collection.

increases relate primarily to additional resources required to achieve the strategic initiatives described in this Service Plan.

Local expenses

(millions)	12/13 Actual	13/14 Forecast	14/15 Budget	15/16 Projection	16/17 Projection
Local expenses	38.5	40.8	40.7	40.4	41.2
Growth	6.3%	6.0%	-0.2%	-0.7%	2.0%

Salaries and benefits

Staffing costs account for about 70% of our local expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes performance-based salary increases. To retain and recruit staff and remain market competitive, we conduct salary surveys annually and make adjustments as appropriate. However, executive and management salaries are currently frozen by government direction.

We allocate salaries to four activities (overhead allocated proportionately):

Strategic Goal	Approximate allocation
Promote a culture of compliance	40%
Act decisively against misconduct	40%
Educate investors	5%
Advance cost effective regulation	15%

We are forecasting $1.6 million (6%) higher salary and benefit costs in 2014 from non-management merit increases averaging 2% and an increase in our staff complement to support strategic initiatives.

For fiscal 2015, we budget a $0.1 million increase in salaries and benefits expenses, because of non-management merit and benefit cost increases, partly offset by fewer temporary employees. We project salary expense increases of 0% and 2% in fiscals 2016 and 2017, respectively.

Rent

Our lease ends November 30, 2021. Rent is as follows:

December 1, 2013 - November 30, 2015	$1,665,000 per year
December 1, 2015 - November 30, 2017	$1,725,000 per year
December 1, 2017 - November 30, 2019	$1,815,000 per year
December 1, 2019 - November 30, 2021	$1,910,000 per year

We also pay a proportionate share of the building's operating and maintenance costs, which we do not expect to grow faster than inflation through fiscal 2017.

Professional services

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Professional service costs relate primarily to the following:

- Risk model implementation consulting (ending in fiscal 2014)
- Legal services and expert opinions
- Fees paid to IIROC for registration services delegated to them
- Our share of CSA project and management costs
- Legislative counsel services
- Interview and hearing transcription services
- Data entry services
- Internal and external audit services

We are forecasting professional fees will decrease $0.5 million (16%) in fiscal 2014. We expect to complete implementation of our compliance risk model project in fiscal 2014, during which we are capitalizing associated development costs. We budget $0.2 million (6%) lower professional fees in 2015 and a further $0.2 million (7%) decline in 2016 as we constrain operating spending to meet our financial targets. We project inflationary growth in professional fees for fiscal 2017.

Information management

We spend significant amounts on information systems and management annually to improve access to our services and information, to increase our capacity to monitor and analyze market activity, and to increase the efficiency of our processes. Information management has three main components:

- Software licensing and maintenance fees (increasing)
- Electronic information services and hardcopy materials (increasing)
- Physical record scanning and storage costs (stable)

We do not expect the composition of our information management activities to change significantly in fiscal 2014. We expect 2% inflationary growth through fiscal 2017.

Depreciation and capital expenditures

We depreciate our leasehold improvements, fixtures, and information technology over their useful lives using the straight-line method. We estimate the useful lives of our assets to be:

- Information technology, including software – five years
- Leasehold improvements – the remaining lease term to November 30, 2021
- Office furniture and equipment – 10 years

We are forecasting depreciation to increase $0.6 million (60%) to $1.5 million in fiscal 2014, to increase to $2.7 million in fiscal 2015, to $3.0 million in fiscal 2016, and to $3.1 million in fiscal 2017, due to higher information technology capital expenditures in recent years.

Our forecasted, budgeted, and projected capital spending relates primarily to computer systems and applications. We are forecasting capital additions to increase $0.9 million

(21%) in fiscal 2014 due primarily to implementing our compliance risk models, upgrading office productivity software, upgrading our public website, and office renovations. We budget lower capital additions of $3.5 million in 2015 and project capital spending of $1.5 million in each of fiscals 2016 and 2017.

Education expenditures

We educate securities market participants and the public about financial literacy, investment fraud, and the operation and regulation of securities markets.

We are forecasting $0.1 million (4%) higher education spending in fiscal 2014 as we complete year three of a planned three-year Be Fraud Aware investor education campaign aimed at protecting BC investors province-wide from investment fraud. We budget education spending to decline $1.5 million (65%) in fiscal 2015 as we reduce Be Fraud Aware spending.

Other local expenses

We are forecasting other operating expenses (training, administration, external communications, travel, and telecommunications) to increase $0.2 million (12%) to $1.9 million in fiscal 2014, due primarily to higher project-related training costs. We project inflationary increases of 2% per year through fiscal 2017.

National filing system partnership

CDS operates the SEDAR, SEDI, and NRD national electronic filing systems on behalf of the CSA.

Effective April 2, 2013, the PAs entered into agreements with IIROC, CDS and CGI Information Systems and Management Consultants Inc. (CGI) to transition system management from CDS to CGI.

Effective that same day, the PAs agreed to form a government partnership to manage the national electronic filing system governance. Each of the four PAs has one vote on national electronic filing system matters. This arrangement is a government partnership, and requires proportionate consolidation of twenty-five percent of national filing system assets, liabilities, net assets, revenues and expenses.

Forecast, budget, and projected results are pro forma, as the partnership is still setting up its accounting and financial reporting systems.

(millions)	12/13 Actual	13/14 Forecast	14/15 Budget	15/16 Projection	16/17 Projection
Operations					
Filing systems fees	-	7.5	6.3	6.3	6.3
Filing systems expenses	-	(3.9)	(2.6)	(2.6)	(6.3)
Filing systems transition costs	-	(2.8)	-	-	-
Surplus before special item	-	0.8	3.7	3.7	-
Surplus on recognition of partnership	-	27.7	-	-	-
Surplus	-	**28.5**	**3.7**	**3.7**	-

Funds held by the OSC in trust on behalf of the PAs, and working capital related to the national electronic filing system operations, were transferred to the partnership effective April 2, 2013. We had not previously recognized any interest in these amounts in our financial statements. Under Canadian Public Sector Accounting Standards, such contributions are recorded in income, not as contributed surplus. Accordingly, we recognized a proportionate interest in these amounts in income for fiscal 2014.

We are forecasting filing revenue totalling $7.5 million for fiscal 2014. We budget that revenues will decline in 2015 following fee reductions implemented in mid-2014. We project that revenues will remain flat over the remaining projection period.

We are forecasting filing system operating expenses of $3.9 million for fiscal 2014. In addition, in fiscal 2014, we are forecasting one-time transition costs of $2.8 million to move the national filing systems from CDS to CGI. We are forecasting that expenses will decrease to $2.6 million in 2015 following the transition. We project that expenses will increase to $6.3 million in 2017 upon implementation of the redesigned filing systems.

Restricted surpluses

The PAs have agreed to restrict the use of national system surplus funds to only benefit national filing system users, through system enhancements or usage fee adjustments. As at March 31, 2014, we are forecasting restricted surpluses totalling $28.5 million related to the national filing system partnership.

Debt

We have no debt.

Risks and opportunities

Local fee revenue

We fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn.

Reliance on CDS and CGI

Under various agreements with the CSA that end on January 31, 2014, CDS operates the SEDAR, SEDI, and NRD national electronic filing systems. We collect about 90% of our local fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system.

Under agreements with CGI that end on April 2, 2018, CGI will assume management of the national systems during fiscal 2014. CGI will maintain a comprehensive business continuity plan for each system.

APPENDIX: REVIEW OF PERFORMANCE MEASUREMENT SYSTEMS FOR EACH SERVICE PLAN MEASUREMENT

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
Measurement 1.1: Percentage of reviewed issuers that reduce deficiencies in continuous disclosure					
Independent evaluation against criteria set by BCSC staff, set out in a report	Manual submission of reviewer's report	Collected annually	Measurement relies on objective third-party professional judgment of disclosure quality	Measures work done 12-24 months before the report: issuers reviewed by the BCSC from April 2014 to March 2015 will be reported on in May 2016.	Electronic system creates list of issuers with significant deficiencies. Reviewer then randomly selects issuers from the list to assess.
Measurement 1.2: Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure					
Staff evaluation against criteria set by BCSC staff, recorded over the year in a spreadsheet	Manual submission of reviewer's report	Collected annually	Measurement relies on professional judgment of disclosure quality	Measure is based on the current continuous disclosure record of the selected issuers	Electronic system allows us to pull list of BC-prime mining issuers.
Measurement 1.3: Average number of deficiencies per examination in Capital Markets Regulation					
Data entered manually into management reporting files	Data comes from a manually-updated Excel spreadsheet, and	Collected at year end	- Measurement relies on our classification of compliance problems, which can change every year	Measurement reflects data from deficiency letters sent during annual reporting period	Internal control environment

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
based on exam deficiency letters: kept in spreadsheet	is adjusted to exclude targeted reviews		- Small data set - Measurement relies on judgment of evaluators		
Measurement 2.1: Actions taken to disrupt misconduct					
Data recorded in established tracking systems	Manually collected into spreadsheet based on internal data sources	Collected quarterly	- Small data set	Measurement reflects cases that had disruptive action occur in a fiscal year	Internal control environment
Measurement 2.2: Average life, in months, of cases either from complaint to a NOH or from complaint to settlement before a NOH is issued					
Data recorded in established tracking systems and official documents	Manually collected into spreadsheet based on internal data sources	Collected quarterly	- Single long cases can move the overall average - Cases put on hold for reasons outside of commission control can move the overall average - Settlements are often by party while NOHs can name several parties	Measurement reflects cases passing the milestones of an NOH or, if no NOH, a settlement in a fiscal year	Internal control environment
Measurement 3.1: Number of complaints and tips received from InvestRight programs					
Data recorded in established tracking system from inquiries via phone calls, emails, InvestRight.org,	Manually collected into spreadsheet based on tracking system records	Collected regularly and reported annually	- Measurement relies on ability for our inquiries staff to sort inquiries based on caller involvement with our education programs	Counts activity in the fiscal year.	Internal control environment

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
and the BeFraudAware mobile application					
Measurement 3.2: Percentage of workshop participants who recall of investor education warning signs of red flags					
Data stored and analyzed electronically. Data received in report format at BCSC	Collected through paper surveys from investor education seminar participants and following phone contact	Collected regularly	- Survey response rate may be low, making statistical significance hard to draw - May have sample bias as response is voluntary	Measurement reflects surveys completed during the reporting period	Internal control environment Third parties administer surveys Third party phone contact
Measurement 3.3: Percentage of BC public aware of BCSC					
Independent survey. Data received in report format at BCSC	Data drawn from independent report	Collected annually	- Small changes in results year to year may not reflect a significant change in behavior because sampling from a population always creates a margin of error that may overlap with a previous study, and so not be statistically different from one another	Awareness assessed within the fiscal year	Research methodology designed to analyze all responses
Measurement 4.1: Average score on cost-effective regulation scorecard					
Internal evaluation based on staff and	Collected manually	Collected annually	- Measurement relies on judgment of evaluators: Executive Director's office and all policy managers	Measurement based on rules put into effect in BC or other major	Discussion on logic for each line item rating

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
management judgment and project documents, kept in a spreadsheet			evaluate a new rule together with staff involved in the project - Small sample size	regulatory projects completed in the year; work to complete the project may have taken place over several years	documented during review.
Measurement 4.2: Average approved project post-implementation score					
Internal accounting systems, internal asset management systems, and internal evaluation based on staff and management judgment and documented results	Collected manually	Collected regularly	- Measurement relies on professional judgment - Small sample size	Measurement reflects projects scored in the fiscal year: work to complete the project may have been over a period of years	Internal control environment

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